



EITC SURVIVAL TIPS

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History

- IRS released a study in 1997
 - High rate of noncompliance
 - Unintentional and intentional errors
- Congress enacted legislation
 - Budget authority for five years
 - New appropriation to address this noncompliance.



Strategy

- Congress instructed IRS to improve EITC compliance
 - Expand customer service and public outreach programs
 - Strengthen enforcement activities
 - Enhance research efforts



Strategy

- Education, assistance, and outreach
 - Toll-free, IRS.gov, partnering
- Compliance enforcement
 - New math error adjustments
 - Pre-refund examinations
- Criminal investigations



Accomplishments

- Developed / Implemented
 - EITC education and enforcement programs for paid preparers
 - Additional statutory authority to deny questionable claims during initial processing (math errors)
 - Improved examination case selection system



Accomplishments

- Enhanced education / outreach
 - Targeted advertising campaign



Accomplishments

- Enhanced education / outreach
 - Targeted advertising campaign
 - Innovative partnerships
 - Practitioner assistance
- Redesigned returns, publications, instructions, and schedules resulting in the decrease of math errors



Accomplishments

- Enforcement
 - Examined 2.7 million returns
 - Protected \$5 billion in revenue



Compliance Studies

- Compliance Estimates for EITC Claimed
 - TY 1997
 - TY 1999
- National Research Program



What's Next?

- Continue holistic approach to improve EITC compliance
- Continue pre-refund examination activity
- Enhance effectiveness of case selection tools
- Implement suggestions from Treasury/IRS EITC taskforce



New Law for TY 2002

- Phase out increased for joint filers
- Modified AGI changed to AGI
- AMT reduction eliminated
- Nontaxable earned income eliminated



New Law for TY 2002

- Qualifying child relationship test changed
- Qualifying child abode test changed
- Tie-breaker rule changed



New Law for TY 2002

- Qualifying child - relationship test
 - Son, daughter, stepchild, or descendant
 - Sibling, stepsibling, or descendant whom the TP cares for as the TP's own
 - Eligible foster child (child placed with the TP by an authorized placement agency) whom the TP cares for as the TP's own



New Law for TY 2002

- Qualifying child - abode test
 - Child must live with the TP for more than half the year



New Law for TY 2002

- Tie-breaker Rule
 - Applies **only** if more than one TP claims the EIC on the basis of the same qualifying child
 - When this occurs, law specifies which TP can claim the credit



New Law for TY 2002

- If child is a Qualifying Child of -
 - 1 parent and another person, parent
 - Neither parent, highest AGI
 - 2 parents, parent Qualifying Child lived with the longest
 - 2 parents same length of time, higher AGI



Due Diligence

Four requirements

- Complete eligibility checklist (Form 8867)
- Compute EIC on worksheet
- Have no knowledge of incorrect item
- Retain records



Due Diligence

- Reliance on taxpayer statements
 - Must make reasonable inquiries
 - Cannot share information
- Application of tie-breaker rules
 - Taxpayer has inferior right
 - Taxpayer has superior right



Guidance

- Formal guidance
 - Priority Guidance Plan
 - IRS.gov; Tax Professionals; More Topics; Administrative Information and Resources
- Informal guidance
 - IRS Written Determinations
 - www.IRS.gov/news/efoia/determine.html



Guidance

2002-2003 Priority Guidance Plan

- Guidance on the EIC
- Guidance regarding temporary absences and the abode requirement.



Guidance

IRS Written Determinations

- Procedures the IRS must follow when disallowing the EIC
 - 200202069
- Collection statute of limitations when EIC is disallowed
 - 200223051



Questions & Answers

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